



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

The Accounting Officer
Namakwa District Municipality
Private bag X 20
Springbok
8240

Date: 30 November 2015

Reference: 21361REG14-15

Dear Sir

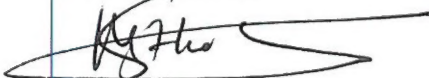
Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Namakwa District Municipality for the year ended 30 June 2015

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa.
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.

5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely



Signed

.....
Senior Manager NCBU: Senzosenkosi Mthembu
Enquiries: Ndabezinhle Nkosi
Telephone: (053) 836 8800

Report of the auditor-general to the Northern Cape provincial legislature and the council on Namakwa District Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Namakwa District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2014 (Act No. 10 of 2014) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Namakwa District Municipality as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material underspending of a vote

8. As disclosed in note 41 to the financial statements, the municipality has materially underspent the budget on Economic Development: Planning and Development sub program, Administration: Corporate Services sub program and Technical Services: Road Transport sub program to the amounts of R33 563 893, R1 249 612 and R866 912 respectively. As a consequence, the municipality has not achieved its objectives of upgrading the harbour project as initially planned.

Financial sustainability

9. The statement of financial performance indicates that the Namakwa District Municipality incurred a net loss of R9 218 193 during the year ended 30 June 2015. These conditions, along with other matters as set forth in note 43, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Irregular expenditure

10. As disclosed in note 33.3 to the financial statements, the municipality incurred irregular expenditure of R320 325 during the year under review mainly due to non-compliance with supply chain management requirements. In addition, the full extent of irregular expenditure is still in the process of being determined.

Additional matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

12. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

13. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form

part of the audit of the financial statements and accordingly we do not express an opinion thereon.

Report on other legal and regulatory requirements

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objective presented in the annual performance report of the municipality for the year ended 30 June 2015:
- Objective: Department: Economic Development, Tourism and Projects on pages x to x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected objectives are as follows:

Department: Economic Development, Tourism and Projects

Usefulness of reported performance information

20. Section 41(c) of the Municipal Systems Act (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives were not consistent with those in the approved budget implementation plan. This was due to an insufficient review of the annual performance report.

Additional matter

21. I draw attention to the following matter:

Achievement of planned targets

22. Refer to the annual performance report on pages x to x and x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected objective reported in paragraph x to xx of this report.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

24. The municipality did not conduct its affairs in a manner which was consistent with its integrated development plan, as required by section 36 of the MSA, section 21(2)(a) of the MFMA and Municipal planning and performance management regulation 6.
25. The service delivery and budget implementation plan for implementing the municipality's delivery of municipal services and annual did not indicate projections for each month of the revenue to be collected, by source and the operational and capital expenditure, by vote, as required by section 1 of the MFMA.
26. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, review, reporting and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the Municipal planning and performance management regulations.

Financial statements, performance and annual reports

27. The annual performance report for the year under review did not include a comparison of the performance with the previous financial and measures taken to improve performance as required by section 46(1)(b) & (c) of the MSA.

Audit committees

28. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Procurement and contract management

29. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by supply chain management (SCM) regulation 17(a) and (c).
30. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).

31. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).

Expenditure management

32. Reasonable steps were not taken to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

Consequence management

33. Unauthorised and irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.
34. Council certified irregular expenditure as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.

Internal control

35. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

36. The oversight functions did not identify and prevent non-compliance instances during the year.
37. Human resource management was not effective in ensuring that competent and sufficiently skilled officials were appointed to ensure that performance is monitored.
38. The action plan process was not effective to timeously address financial and performance reporting matters and non-compliance that occurred during the financial year.

Financial and performance management

39. During the financial year under review, management also did not ensure that all transactions and records were internally checked to detect and correct errors in the financial records.
40. During the year under review, management did not regularly review and monitor management's compliance with all laws and regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted that could have been prevented. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations and performance information and these were not addressed.

41. Management did not review the financial statements, to ensure the achievement of fair presentation; this resulted in material amendments to irregular expenditure disclosure in the financial statements.
42. The weaknesses within the security management, user access management, program change management and IT service continuity were not addressed as previously reported due to failure of IT Management to timely follow-up on action plans specified during the past review and correct previously identified internal control deficiencies. IT Findings and improvement of the IT controls within the municipality were not prioritised by management.

Governance

43. Management did not review or monitor risks identified. In addition no risk assessment was performed relating to the IT environment.
44. The accounting officer did not ensure that a risk unit was established. The municipality did not identify risks relating to the achievement of financial and performance reporting objectives. Consequently, controls were not developed to prevent and detect various internal control weaknesses in financial and performance reporting not being detected timeously. These weaknesses also hampered the functioning of the audit committees which also did not execute its prescribed mandate.

Auditor General
Kimberley

30 November 2015



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